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INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE
RHEBAAA/DEPT OF ENERGY WASHDC
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C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 000470

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E.O. 12958: DECL: 02/11/2016
TAGS: EPET ENRG AE
SUBJECT: ADNOC DEPUTY CEO ON ADNOC EXPANSION PLANS

Classified By: (U) Classified by Ambassador Michele J. Sison for reasons 1.4 (B) and (D).

This cable contains business proprietary information.

¶1. (C) Summary: On February 7, ADNOC Deputy CEO Abdulla Nasser Al-Suwaidi (protect) told econchief that Abu Dhabi's Supreme Petroleum Council (SPC) had approved Exxon/Mobil's bid for a 28% stake in the Upper Zakum field and was offering Exxon/Mobil a 20 year concession on the field. He noted that ADNOC was thinking about splitting up its onshore concession into multiple concessions and/or opening it up for bid when it expired in 2014. Al-Suwaidi said that onshore production capacity was on target to increase to 1.4 million b/d by early 2006 (with 100,000 b/d added in 2005 and around another 100,000 in early 2006). He also noted that ADNOC had identified another 200,000 b/d onshore and 400,000 offshore that could be brought on-board by around 2010, if it began to invest immediately. He said that Exxon/Mobil had presented a plan to bring production from the Upper Zakum field to 750,000 b/d in around seven years. End Summary.

SPC Picks Exxon/Mobil for Upper Zakum

¶2. (C) On February 7, Abu Dhabi National Oil Company (ADNOC) Deputy CEO Abdulla Nasser Al-Suwaidi told econchief that the SPC had approved Exxon/Mobil's bid for the 28% stake in the Upper Zakum oil field. He said that he anticipated that ADNOC and Exxon/Mobil would be able to sign the contract shortly after any final details had been worked out. He explained that the decision would not be made public until both parties decided on a date for signature, and asked that the matter be treated confidentially. In a separate conversation with Exxon Al-Khaleej President Frank Kemnetz (protect) he confirmed the deal and the fact that Exxon/Mobil would not publicly disclose the deal ahead of ADNOC. Al-Suwaidi acknowledged that the information would get out through the rumor mill, but noted official confirmation was a different matter. Al-Suwaidi told econchief that Exxon/Mobil's concession in Upper Zakum would run until 2026, solidifying the company's presence in Abu Dhabi. He added that ADNOC had extended the Japan Oil development Company's (JODCO) 12% concession in the field for the same amount of time. Al-Suwaidi confirmed that there had originally been interest in splitting the 28% stake among several investors, but that he had argued that this would not serve the UAE's best interest. He explained that the complicated nature of Upper Zakum required high-end technology, which was

proprietary to the individual oil companies. Under a sharing arrangement, companies would be reluctant to share their technology.

¶3. (C) Al-Suwaidi said that Exxon/Mobil had presented ADNOC a plan to bring Upper Zakum capacity from its current level of 520,000-550,000 barrels per day (b/d) to 750,000 b/d in around seven years. The first 3 years, Exxon/Mobil would need to "study" the fields, and would then begin to develop the asset. Al-Suwaidi said that some in the SPC were concerned about the lead time for the study and asked "what if Exxon/Mobil can't bring the field to 750,000." He said that ADNOC had assured them that the 750,000 represented an IOC consensus on the field's production capacity, and that Upper Zakum had already reached production of 600,000 b/d but ADNOC had reduced production out of concerns for the reservoir. He noted that given the size of the field, 750,000 b/d shouldn't be a problem and that ideally ADNOC was interested in seeing if the field could eventually produce 1 million b/d.

Onshore Concession renewal to open for bid?

¶4. (C) Al-Suwaidi said that the Abu Dhabi Company for Onshore Operations' (ADCO) oil concession would expire in 2014 and that ADNOC was looking at how to renew it. He confided that Abu Dhabi was considering splitting the concession and/or opening it up for bid rather than just negotiating with the foreign shareholders on a renewal of their 40% stake in the company, citing the Upper Zakum bid as a possible model. He said that "the Sheikhs" were concerned that ADCO's international shareholders were not pushing to expand production capacity as rapidly as Abu Dhabi might wish. Al-Suwaidi said that he understood the international

shareholders' position as OPEC quotas normally capped ADNOC's production and that fiscal terms of one dollar per barrel meant that the international partners didn't benefit from the current price rises. He acknowledged that the current arrangement had served Abu Dhabi well, but that more competition could enable Abu Dhabi to get the best possible deal for its oil and gas. Al-Suwaidi stressed that the incumbents would still be able to bid on the concessions, but that they might not be able to count on an automatic renewal.

Increases in Onshore Production Capacity

¶5. (C) Al-Suwaidi stated that ADCO was on track to a sustainable production capacity of 1.4 million b/d by early 2006, confirming that it had added 100,000 b/d capacity in 2005 and would be bringing on another 100,000 by early 2006. He described his efforts in the late 1990s to encourage ADCO's international shareholders to develop three fields in Northeastern Abu Dhabi (Al-Dabbiya, Rumaitha, and Shanayal), adding that he had obtained agreement in 2000 to develop those fields, which collectively contain an estimated eight billion barrels of oil. These 3 fields would collectively be able to produce 110,000 b/d in early 2006 (accounting for the additional 100,000 b/d that ADCO publicly announced, on February 5, that it would add). Al-Suwaidi said that ADCO treated the three fields as one project, since the oil would be collected at one or two gathering stations and that production capacity had already reached the halfway point of about 50,000 b/d.

¶6. (C) Al-Suwaidi confirmed press reports that ADCO had added 100,000 b/d production to the Bab field in 2005, bringing its total surface capacity to 350,000. He noted that ADNOC had identified another 200,000 b/d in capacity that it could bring on line by around 2010, if it started investing now. He noted, wryly, that his problem would be to try and convince the foreign shareholders to make the investment,

especially since the concession would be running out shortly.

Offshore Production Increases

¶7. (C) Al-Suwaidi briefly turned the discussion to plans to increase production at the Abu Dhabi Marine Operating Committee's offshore concession, (which expires in 2018). He said that a program was on track to bring sustainable production in ADMA/OPCO to 600,000 b/d. Currently, he noted that ADMA/OPCO's sustainable production capacity was 577,000 b/d. He added that ADNOC had identified another potential 400,000 b/d in new production capacity that could be brought on line by around 2010 if investment started now -- this would include another 100,000 from Lower Zakum and 300,000 from new fields (including one named Umm Lulu -- the mother of the pearl).

Gas injection

¶8. (SBU) In a January 29 conversation between econoff and ADNOC's managers for onshore and offshore production, they discussed Abu Dhabi's use of gas injection for reservoir management. They noted that increasing oil production at the Upper Zakum field would definitely require gas reinjection, which would likely come from offshore fields. They commented that Abu Dhabi needed to use much of its gas for reservoir management, adding that the Dolphin project (to bring natural gas to the UAE from Qatar) would complement Abu Dhabi's plans to expand gas production and would hopefully bring gas to market in a "cheaper, safer" manner. They mentioned that ADNOC was studying using CO_2 for injection, and that -- if the new process were successful -- it would capture CO_2 from power plants rather than using subsurface CO_2. Al-Suwaidi told econchief that the Japanese had some new CO_2 recovery technology that ADNOC was evaluating. He stressed that ADNOC's evaluations were still preliminary, noting that he was, by nature, cautious about the claims of any particular engineering firm, assuming that they would say anything to "get a contract."

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